



State of North Carolina  
Office of the State Controller

# STATE OF NORTH CAROLINA FINANCIAL HIGHLIGHTS



FISCAL YEAR ENDING JUNE 30, 2019

On the cover:

Two of the most iconic symbols of North Carolina are its State Bird, the Cardinal and its State Flower, the Dogwood.

The NC General Assembly of 1941 named the flower of the Dogwood Tree as the State Flower and in 1943, named the Cardinal as the official State Bird of North Carolina.

The Flowering Dogwood is a tree that enchants North Carolinians every spring. A relatively short tree, its four white (or sometimes pink) petal-like bracts circle the tiny greenish white flowers in the center. The Flowering Dogwood is found in deciduous woodlands throughout the state up to elevations of 4,500 feet.<sup>1</sup>

The choice of the Cardinal as the State Bird was by no means certain at the beginning of the session. The North Carolina Bird Club initiated the campaign to choose a bird as a state symbol, publicizing the campaign through newspapers, local birding and wildlife clubs, and schools. More than 23,000 votes were cast, and twenty-six different avian candidates were suggested, including, among others, the red-winged blackbird, the wild turkey, the scarlet tanager, and the catbird. The cardinal received 5,000 votes, with the dove coming in second with 3,395.<sup>2</sup>

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<sup>1</sup> Templeton, L. P. (n.d.). Flower. Retrieved from <https://www.ncpedia.org/symbols/flower>.

<sup>2</sup> State Bird of North Carolina: Cardinal. (n.d.). Retrieved from <https://www.ncpedia.org/symbols/bird>. From ENCYCLOPEDIA OF NORTH CAROLINA edited by William S. Powell. Copyright © 2006 by the University of North Carolina Press. Used by permission of the publisher. [www.uncpress.unc.org](http://www.uncpress.unc.org)

# Financial Highlights

Dear Fellow North Carolinian,

I am pleased to present to you **North Carolina's Financial Highlights** for the fiscal year ended June 30, 2019. The State's fiscal year starts July 1 and ends the following June 30. Accurate financial reporting is a hallmark of our Great State. This report reflects my commitment to you, the citizens of North Carolina, to provide financial reporting in conformance with accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB). It also represents our continuing commitment to you to provide transparency to our citizens through clear reporting, financial management, and fiscal accountability for the resources of the State of North Carolina.



**North Carolina's Financial Highlights** is a report for all North Carolinians and an initiative of the Office of The State Controller to provide easy-to-understand information about our State's financial condition. It summarizes basic financial information about our State which is supported in more detail in the State's Comprehensive Annual Financial Report (CAFR). The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and is independently audited by the North Carolina Office of the State Auditor.

This report provides information at the government-wide level in addition to the major fund level, and certain selected statistical information cited in our CAFR. Coverage of legally separate but related organizations is limited to universities and community colleges and is at a high level.

In 1985, the North Carolina General Assembly established the Office of the State Controller. In their wisdom, they saw the need to create an independent, non-partisan office to oversee the State's accounting, disbursing, and financial reporting functions. Their goal was to provide a source of checks and balances between the branches of government to ensure there was an appropriate accounting of public funds and integrity in the State's fiscal reports. I trust that the information provided throughout this report will give us all reason to celebrate living in this Great State.

Thank you for your interest in the financial integrity of the State of North Carolina.

Sincerely,

A handwritten signature in black ink that reads "Linda Combs". The signature is written in a cursive, flowing style.

Dr. Linda Combs  
State Controller  
December 5, 2019

*Information is presented in this report on the basis of GAAP. This report and the State's complete financial statements, known as the CAFR, can be obtained at <https://www.osc.nc.gov>, by telephone at (919) 707-0500, or by writing to the N.C. Office of the State Controller, 1410 Mail Service Center, Raleigh, N.C. 27699-1410.*

## State Reporting Entity and Services

The State of North Carolina entity as reported in the CAFR includes all fund types of the departments, agencies, boards, commissions, and authorities governed and legally controlled by the State's executive, legislative, and judicial branches. In addition, the reporting entity includes legally separate organizations known as component units for which the State is financially accountable. The component units are discretely presented in the government-wide financial statements. The State's discretely presented major component units are the University of North Carolina System, the State's community colleges, and the State Health Plan.

The State and its component units provide a broad range of services to its citizens, including:

- ◆ K-12 Public Education
- ◆ Higher Education
- ◆ Health and Human Services
- ◆ Economic Development
- ◆ Environment and Natural Resources
- ◆ Public Safety, Corrections, and Regulation
- ◆ Transportation
- ◆ Agriculture
- ◆ General Government Services



State Precious Stone: Emerald

## The Economy

During fiscal year 2018-19, solid economic growth in the US and in North Carolina continued, although at a slower pace than the previous fiscal year. For example, industry employment in the State increased by 63,600 jobs (1.4%) compared to 92,800 (2.1%) in fiscal year 2017-18. A few key State industries experienced strong growth, especially Financial Services (3.0%), Leisure & Hospitality Services (2.8%), Trade, Transportation, and Utilities (2.5%), and Other Services (2.5%). The State's unemployment rate increased from 3.8% at the start of the fiscal year to 4.2% in June 2019. This is the result of the labor force growth outpacing employment growth. Wage and salary income grew by 4.4%, which was similar to growth last fiscal year of 4.5%. For the second half of 2019, economic conditions should continue to support steady employment growth with wages forecast to continue growing at a pace similar to the start of the year.

# Financial Highlights

## North Carolina Economic Indicators

	FY 2017-18 Actual	FY 2018-19 Projected	FY 2019-20 Projected	FY 2020-21 Projected
<b>State Gross Product Growth*</b>	2.7%	2.7%	2.3%	2.1%
<b>Personal Income Growth</b>	4.7%	4.6%	4.0%	3.1%
<b>Wages &amp; Salaries Growth</b>	4.5%	4.4%	4.3%	2.4%
<b>Retail Sales Growth</b>	5.5%	5.6%	5.0%	4.3%
<b>Unemployment Rate</b>	4.1%	4.2%	4.3%	4.3%
<b>Nonfarm Employment Growth</b>	2.1%	1.4%	1.3%	1.3%
<b>Population Growth</b>	1.0%	1.0%	1.0%	1.0%

\*Adjusted for Inflation

For North Carolina, as with the nation, the economy has strengthened, and the pace of growth tracked closely with the economic expectations at the start of the fiscal year. The stronger pace of growth established in the previous fiscal year did slow slightly as industry employment in the State increased by 63,600 jobs (1.4%) as compared to the 92,800 jobs added (2.1%) in fiscal year 2017-18.

Projections of the State's key economic indicators reflect how the economy is expected to unfold during the next two fiscal years. Gross State Product, a broad measure of the State's economic activity, is expected to remain positive but grow at a slower pace. Likewise, total personal income growth should remain steady, but with growth slowing from 4.6% to 4.0% in fiscal year 2019-20. For this fiscal year, total personal income rose by 4.6%, still trailing the strong growth of 6 to 7% experienced in the pre-recession years. Wage and salary income, a component of total personal income, grew at 4.4% for the fiscal year.

As noted, North Carolina had moved into a stronger expansionary phase during fiscal year 2017-18, and the State continued solid progress in employment this fiscal year. However, the growth in the workforce out-paced employment growth pushing the unemployment rate higher. The unemployment rate went from 3.8% as the start of the fiscal year to 4.2% at the end. With an improved economic outlook and low unemployment, retail sales advanced at a rate of 5.6%. Going forward, retail sales are expected to grow closer to the long-term average of 5.0%, slowing to 4.0% by 2021. Steady employment and wage growth are expected to support an increase in household consumption for the next two years.

As the State's economy continued to progress, employment and personal income growth stabilized. Total industry employment over the next two years is projected to grow by 1.3% and 1.0%, respectively. That would be below this year's pace of growth but would continue to add 55,000 to 65,000 jobs per year. Key industries in the State experienced strong growth during the fiscal year, especially the Financial Services (7,300 jobs, 3.0%) followed by Leisure & Hospitality Services (14,200, 2.8%), Trade, Transportation, and Utilities (21,100, 2.5%) and Other Services (3,800, 2.5%). The Manufacturing industry's employment has been on a downward trajectory both in the State and the nation. In fiscal year 2018-19, manufacturing employment in the State declined by 3,300 (-0.7%).

The State is estimated to have added 122,000 people to its population during the fiscal year and by July 2021, the State's population is projected to grow to almost 10.8 million, an increase of nearly 480,000 people since July 2017. Continued population growth will assist with economic growth by adding demand for housing, durable and non-durable goods, and services. In turn, growth in personal income and retail sales will help bolster the State's economic conditions.

To summarize, the State's economy experienced steady improvement during the fiscal year. During most of 2018 and into 2019, the State's economy tracked closely, and at times outpaced, the national economy's expansion. Economic conditions in the State are projected to continue to grow at a pace similar or slightly above the national average throughout the next fiscal year. The anticipated economic strengthening should support solid consumer demand and help maintain steady employment growth. While the pace of growth may slow comparatively, a steady employment market combined with individual wage gains will continue to reinforce the overall health of the State's economy.

— Economic analysis prepared by Barry Boardman, Ph.D., Chief Economist  
Fiscal Research Division, North Carolina General Assembly  
September 27, 2019

## Financial Highlights

### Government-wide Financials

- ◆ Total assets and deferred outflows of the State of North Carolina exceeded its liabilities and deferred inflows by \$54.41 million (reported as net position). The State's total net position increased by \$3.37 billion or 6.6% in fiscal year 2019 when compared to the prior year. More specifically, net position of governmental activities was \$48.14 billion, an increase of \$2.82 billion or 6.22% while the net position of business-type activities was \$6.27 billion, an increase of \$548.62 million or 9.59%.
- ◆ Component units reported net position of \$15.46 billion, an increase of \$2.29 billion or 17.39% from the previous year. The majority of the net position is attributable to the University of North Carolina System, a major component unit.

### Fund Financials

- ◆ The General Fund reported fund balance of \$5.98 billion at June 30, 2019, an increase of 10.85% from the previous year. The fund balance increase is due, in part, to growth in individual income tax. Significant increases in final tax payments account for the majority of the increase as well as an improved economy.
- ◆ The fund balance of the Highway Fund decreased from a negative \$390.03 million at June 30, 2018 to a negative \$595.63 million at June 30, 2019, a decrease of 52.71% from the previous year. A combination of increased project and disaster related expenditures exceeding revenue collections account for the majority of the decrease.
- ◆ The Highway Trust Fund reported fund balance of \$1.73 billion, an increase of 4.4% from the previous year. The fund balance increase is attributable, in part, to the issuance of \$300 million limited obligation bonds in June 2019.
- ◆ The Unemployment Compensation Fund reported net position of \$3.88 billion at June 30, 2019 compared to \$3.46 billion at June 30, 2018, an increase of 12.29%.  
The improvement in net position is explained by the improving economy, as evidenced by the continued low rate of unemployment in the State with a rate of 4.2% at June 2018 and 4.2% at June 2019; as well as a significant increase in the amount of quarterly interest earned on the balance.
- ◆ The N.C. State Lottery Fund reported net ticket sales of \$2.86 billion, an increase of 9.77% from the previous year. As required by law, the Lottery transferred \$709.2 million to the General Fund to support educational programs.
- ◆ The N.C. Turnpike Authority (NCTA) reported net position of \$400.8 million, an increase of 14.49% from the previous year. Toll revenues increased \$14 million or 31.85%. Contributing to the increase in net position, the NCTA received a transfer in from the Highway Trust Fund of \$49 million for gap funding on turnpike bonds, along with \$18.81 million for State match and \$27.32 million in federal capital grants.
- ◆ The EPA Revolving Loan Fund reported net position of \$1.82 billion, an increase of 5.31% from the previous year. Operating income was \$10.42 million, and net nonoperating revenues of \$70.09 million consisted primarily of federal capitalization grants.



State Insect: Honeybee

# Financial Highlights

## Government-wide Financials

The Statement of Net Position and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: Is the State, as a whole, better off or worse off as a result of this year's activities?

- ◆ Governmental activities cover most of the State's basic services such as health and human services, transportation and education. Taxes and intergovernmental revenues generally fund these services.
- ◆ Business-type activities are services provided to the State or outside customers that are similar in function to private businesses and are primarily financed by fees charged to the customers. These fees cover all or most of the cost of the services being provided. The State's Unemployment Compensation Fund, the EPA Revolving Loan Fund, the N.C. State Lottery Fund, and the N.C. Turnpike Authority are the predominant business-type activities of the State.

### Statement of Net Position

The Statement of Net Position presents all of the State's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the sum of these components reported as "net position." The State of North Carolina's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$54.41 billion at the close of the most recent fiscal year (see total primary government column). Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating. The State's overall net position increased \$3.37 billion or 6.60% (total primary government) from the prior fiscal year. The following table was derived from the government-wide Statement of Net Position:

**Net Position as of June 30, 2019 and 2018**  
(dollars in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government		Total Percentage Change 2018-19
	2019	2018 (as restated)	2019	2018 (as restated)	2019	2018 (as restated)	
	Current and other non-current assets.....	\$ 15,564,231	\$ 13,770,776	\$ 6,517,706	\$ 5,882,363	\$ 22,081,937	
Capital assets, net.....	54,646,862	51,929,537	1,940,443	1,854,724	56,587,305	53,784,261	5.21%
Total assets.....	70,211,093	65,700,313	8,458,149	7,737,087	78,669,242	73,437,400	7.12%
Total deferred outflows of resources.....	2,246,775	1,916,123	63,418	52,760	2,310,193	1,968,883	17.34%
Long-term liabilities.....	15,974,849	15,526,701	1,861,017	1,720,515	17,835,866	17,247,216	3.41%
Other liabilities.....	5,444,460	4,437,141	339,267	312,715	5,783,727	4,749,856	21.77%
Total liabilities.....	21,419,309	19,963,842	2,200,284	2,033,230	23,619,593	21,997,072	7.38%
Total deferred inflows of resources.....	2,896,623	2,330,679	52,125	36,074	2,948,748	2,366,753	24.59%
Net position:							
Net investment in capital assets.....	52,796,495	49,966,225	562,918	606,649	53,359,413	50,572,874	5.51%
Restricted.....	1,248,362	1,187,465	114,803	16,963	1,363,165	1,204,428	13.18%
Unrestricted.....	(5,902,921)	(5,831,775)	5,591,437	5,096,931	(311,484)	(734,844)	57.61%
Total net position.....	\$ 48,141,936	\$ 45,321,915	\$ 6,269,158	\$ 5,720,543	\$ 54,411,094	\$ 51,042,458	6.60%

The largest component of the State's net position (98.07% for fiscal year 2019) reflects its investment in capital assets (land, buildings, machinery and equipment, state highway system, toll road system, and other capital assets), less related debt still outstanding that was used to acquire or construct those assets. Restricted net position is the next largest component (\$1.36 billion). These resources are subject to constraints that are externally imposed (e.g., by creditors or grantors) or are imposed by law through constitutional provisions. The remaining portion, unrestricted net position, consists of net position that does not meet the definition of "net investment in capital assets" or "restricted".

# Financial Highlights

## Statement of Activities

The Statement of Activities presents information showing how the State's net position changed during the most recent fiscal year. The following financial information was derived from the government-wide Statement of Activities:

### Condensed Statement of Activities Primary Government For the Fiscal Year Ended June 30, 2019 (dollars in thousands)

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>Changes in Net Position</b>			
Net (expense) revenue.....	\$ (25,947,093)	\$ 1,162,510	\$ (24,784,583)
General Revenues:			
Taxes:			
Individual income tax.....	13,242,924	—	13,242,924
Corporate income tax.....	779,886	—	779,886
Sales and use tax.....	8,436,190	—	8,436,190
Gasoline tax.....	2,118,180	—	2,118,180
Franchise tax.....	754,936	—	754,936
Highway use tax.....	838,571	—	838,571
Insurance tax.....	577,430	—	577,430
Beverage tax.....	435,471	—	435,471
Tobacco products tax.....	294,030	—	294,030
Other taxes.....	276,828	—	276,828
Tobacco settlement.....	155,818	—	155,818
Unrestricted investment earnings.....	153,490	—	153,490
Miscellaneous.....	84,549	—	84,549
Contributions to permanent funds.....	4,916	—	4,916
Contributions to endowments.....	—	—	—
Transfers.....	613,895	(613,895)	—
Total general revenues, contributions, and transfers.....	28,767,114	(613,895)	28,153,219
Change in net position.....	2,820,021	548,615	3,368,636
Net position — July 1, as restated (Note 23).....	45,321,915	5,720,543	51,042,458
Net position — June 30.....	\$ 48,141,936	\$ 6,269,158	\$ 54,411,094

#### Governmental Activities

- ◆ For fiscal year 2019, revenues outpaced expenses and when combined with contributions to permanent funds and transfers from the State's business-type activities, an increase in net position of \$2.82 billion (or 6.22%) resulted for governmental activities.
- ◆ Total revenues increased by \$2.46 billion (or 5.28%).
- ◆ Total expenses increased by \$2.92 billion (or 6.63%).

#### Business-type Activities

- ◆ Business-type activities reflect an overall increase in net position of \$548.62 million (or 9.59%) primarily because of the financial results of the Unemployment Compensation Fund.
- ◆ The net position increase of \$425.05 million (or 12.29%) for the Unemployment Compensation Fund is explained by the improving economy, as evidenced by the continued low unemployment rate in the State, which was 4.2% in both June 2018 and June 2019.
- ◆ The net position increase of \$50.73 million (or 14.49%) for the N.C. Turnpike Authority is primarily due to an increase in toll revenues and a reduction in interest expense on outstanding debt.
- ◆ The net position increase of \$91.64 million (or 5.31%) for the EPA Revolving Loan Fund is due to increased investment earnings on outstanding loans as well as recognition of federal capitalization grants.
- ◆ The N.C. State Lottery Fund's net position did not change and will continue to remain constant as a result of legislative changes in the methodology used to calculate net revenues to be distributed to the State's governmental activities, as required by statute.

# Financial Highlights

## Statement of Activities (cont'd)

For fiscal year 2019, the following factors contributed to increases in both revenues and expenses:

- ◆ Operating grants and contributions increased by \$656 million (or 4.02%) due to higher spending in federally supported programs, such as Medicaid and disaster relief for Hurricane Florence.
- ◆ Individual income tax revenues increased by \$635 million (or 5.04%) while sales and use taxes increased by \$484 million (or 6.09%). An improved economy positively impacted major sources of the State's tax revenues, including individual income taxes and sales and use taxes in the current fiscal year. Additionally, the increase in sales and use tax revenues was also attributed to a new directive effective August 2018 that required remote sellers not physically located in North Carolina to collect and remit sales tax on sales sourced to North Carolina on a prospective basis.
- ◆ Capital grants and contributions increased by 32.39%; this increase is mostly due to more spending in federally supported transportation capital projects.
- ◆ Total transportation spending increased by \$753 million (or 23.88%) primarily due to increases in spending on improvement projects, the continued implementation and expansion of the Strategic Transportation Investment program, and grant payments for a light rail extension and wetland mitigation costs.
- ◆ Expenses for primary and secondary education increased \$671 million (or 6.09%) and higher education increased \$398 million (or 9.06%) due to increased state aid and salary increases for personnel. Disaster relief funds for Hurricane Florence increased expenses, as well as increased Connect NC bond distributions to higher education entities also contributed to increases in spending.
- ◆ Health and human services spending increased by \$491 million (or 2.57%) due to increased spending for Medicaid as well as the development of NC FAST, an IT system for managing and administering social services benefits.
- ◆ Increased spending on disaster relief also was primarily responsible for increases of \$232 million (or 6.5%) in public safety, corrections and regulation, and \$188 million (or 92.02%) in agriculture.

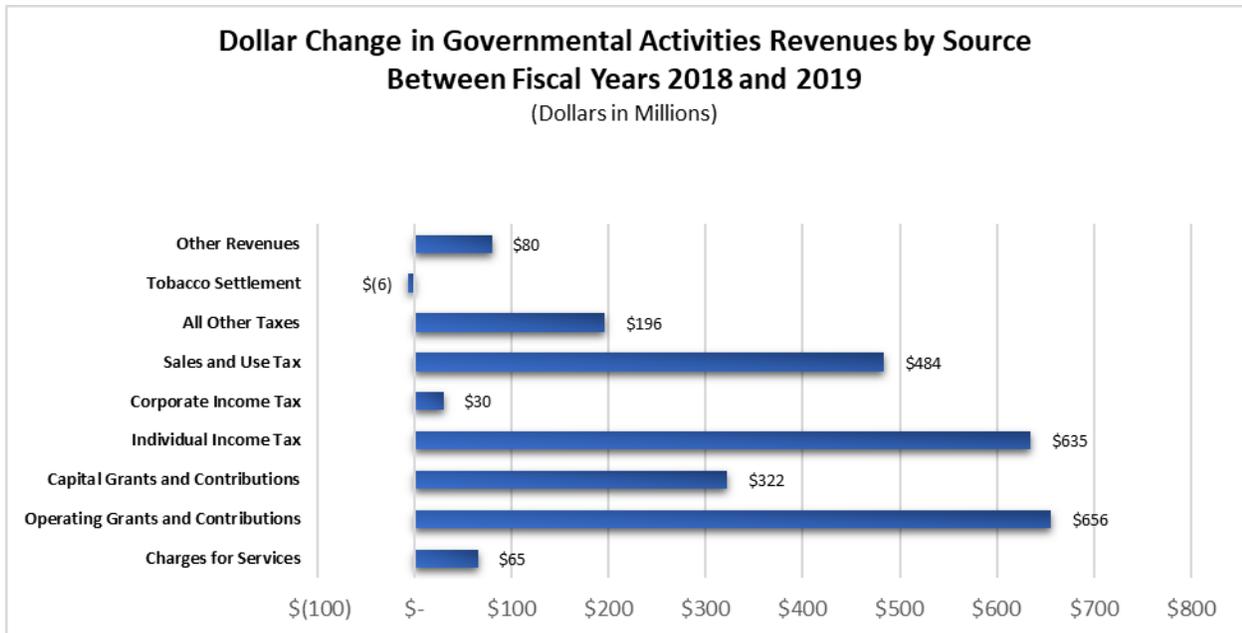
### Condensed Schedule of Expenses & Program Revenue Primary Government For the Fiscal Year Ended June 30, 2019 (dollars in thousands)

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue
<b>Primary Government</b>			
<b>Governmental Activities</b>			
General government.....	\$ 1,392,293	\$ 341,486	\$ (1,050,807)
Primary and secondary education.....	11,697,451	1,575,227	(10,122,224)
Higher education.....	4,788,720	179,333	(4,609,387)
Health and human services.....	19,567,645	14,526,650	(5,040,995)
Economic development.....	505,806	274,679	(231,127)
Environment and natural resources.....	666,594	314,261	(352,333)
Public safety, corrections, and regulation.....	3,795,946	1,059,124	(2,736,822)
Transportation.....	3,907,427	2,590,809	(1,316,618)
Agriculture.....	392,214	69,233	(322,981)
Interest on long-term debt.....	163,799	—	(163,799)
Total Governmental Activities.....	46,877,895	20,930,802	(25,947,093)
<b>Business-type Activities</b>			
Unemployment Compensation.....	169,967	591,502	421,535
N.C. State Lottery.....	2,154,116	2,866,411	712,295
EPA Revolving Loan.....	23,657	104,159	80,502
N.C. Turnpike Authority.....	132,456	104,851	(27,605)
Regulatory programs.....	121,652	134,002	12,350
Insurance programs.....	67,007	36,780	(30,227)
North Carolina State Fair.....	18,197	15,090	(3,107)
Other business-type activities.....	17,029	13,796	(3,233)
Total Business-type Activities.....	2,704,081	3,866,591	1,162,510
Total Primary Government.....	\$ 49,581,976	\$ 24,797,393	\$ (24,784,583)

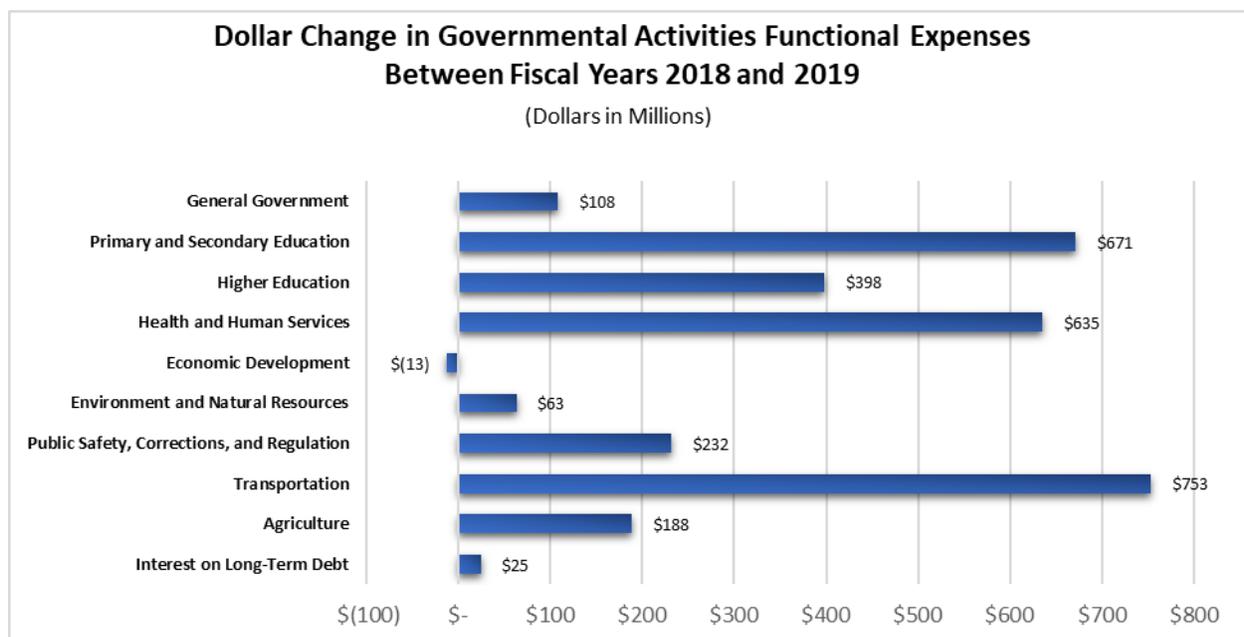
# Financial Highlights

## Statement of Activities (cont'd)

The following chart reflects the dollar change in the revenues by source of governmental activities between fiscal years 2018 and 2019:



The following chart reflects the dollar change in the functional expenses of governmental activities between fiscal years 2018 and 2019:



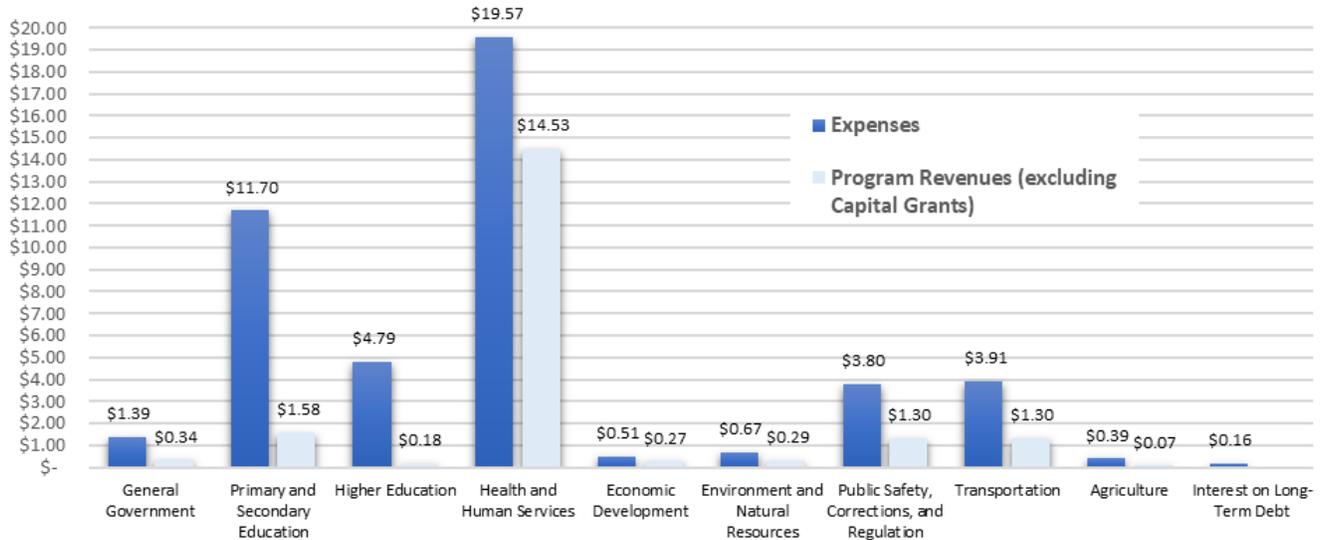
# Financial Highlights

## Statement of Activities (cont'd)

The following chart depicts the total expenses and total program revenues of the State's governmental functions. This format identifies the extent to which each governmental function is self-financing through fees and intergovernmental aid or draws from the general revenues of the State.

### Expenses - Governmental Activities For the Fiscal Year Ended June 30, 2019

(Dollars in Billions)



State Shell: Scotch Bonnet

# Financial Highlights

## Statement of Activities (cont'd)

The following schedule reflects the changes in the State's net position over the last five years:

### CHANGES IN NET POSITION

For the Fiscal Years 2015-2019

(dollars in millions)

	2019	2018	2017	2016	2015
<b>Governmental Activities</b>					
Total Expenses.....	\$ (46,878)	\$ (43,962)	\$ (42,676)	\$ (40,919)	\$ (40,799)
Total Tax Revenues.....	27,754	26,409	25,377	24,947	24,049
Total Other Revenues and Contributions.....	21,330	20,214	20,092	19,505	19,602
Total Transfers.....	614	608	665	518	416
Change in Net Position.....	<u>2,820</u>	<u>3,269</u>	<u>3,458</u>	<u>4,051</u>	<u>3,268</u>
Net Position - June 30.....	\$48,142	\$45,322	\$41,879	\$46,730	\$42,822
<b>Business-type Activities</b>					
Total Expenses.....	(2,704)	(2,406)	(2,349)	(2,260)	(2,055)
Total Revenues.....	3,867	3,594	3,760	4,090	4,157
Total Transfers.....	(614)	(608)	(665)	(518)	(416)
Change in Net Position.....	<u>549</u>	<u>580</u>	<u>746</u>	<u>1,312</u>	<u>1,686</u>
Net Position - June 30.....	\$6,269	\$5,721	\$5,141	\$4,491	\$3,175
<b>Total Primary Government</b>					
Total Expenses.....	(49,582)	(46,368)	(45,025)	(43,179)	(42,854)
Total Revenues and Contributions.....	52,951	50,217	49,229	48,542	47,808
Change in Net Position.....	<u>3,369</u>	<u>3,849</u>	<u>4,204</u>	<u>5,363</u>	<u>4,954</u>
Net Position - June 30.....	\$54,411	\$51,043	\$47,020	\$51,221	\$45,997



State Horse: Colonial Spanish Mustang

# Financial Highlights

## Capital Assets

As of June 30, 2019, the State's investment in capital assets was \$56.69 billion, an increase of 5.21% from the previous fiscal year-end (see table below):

### Capital Assets as of June 30 (net of depreciation, dollars in thousands)

	Governmental Activities		Business-type Activities		Total	
	2019	2018 (as restated)	2019	2018 (as restated)	2019	2018 (as restated)
Land and permanent easements.....	\$19,242,062	\$18,533,400	\$ 306,888	\$ 285,093	\$19,548,950	\$18,818,493
Buildings.....	2,728,850	2,770,146	59,024	61,764	2,787,874	2,831,910
Machinery and equipment.....	808,383	779,033	9,323	8,191	817,706	787,224
Infrastructure:						
State highway system.....	27,479,968	25,901,185	—	—	27,479,968	25,901,185
NC toll road system.....	—	—	1,418,003	714,056	1,418,003	714,056
Other infrastructure.....	230,265	228,898	6,933	3,694	237,198	232,592
Computer software.....	289,610	288,069	955	1,076	290,565	289,145
Art, literature, and other artifacts.....	139,565	141,854	1,277	1,277	140,842	143,131
Construction in progress.....	3,095,831	2,735,831	138,040	779,573	3,233,871	3,515,404
Computer software in development.....	632,328	551,121	—	—	632,328	551,121
Total.....	<u>\$54,646,862</u>	<u>\$51,929,537</u>	<u>\$1,940,443</u>	<u>\$ 1,854,724</u>	<u>\$56,587,305</u>	<u>\$53,784,261</u>

Total percent change between  
fiscal years 2018 and 2019

5.23 %

4.62 %

5.21 %

The largest component of capital assets is the state highway system. North Carolina has an 80,043 mile highway system, making it the second largest state-maintained highway system in the nation. The major capital asset activity during the current fiscal year included the following:

- ◆ The N.C. Department of Transportation reported year-end construction in progress of \$2.64 billion for state highway projects. Additionally, the N.C. Turnpike Authority (business-type activity) opened the Monroe Expressway to traffic in November 2018. The Monroe Expressway is an All-Electronic Toll facility in eastern Mecklenburg County and will improve mobility and capacity within the project study area by providing a highway for the U.S. 74 corridor that allows for high-speed regional travel. The total cost of the toll expressway was \$703.43 million and was financed by revenue bonds and a Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan.
- ◆ The Department of Health and Human Services (DHHS) is constructing a psychiatric hospital as part of the effort to replace aging state-operated psychiatric hospitals. DHHS began construction of a new Broughton Hospital in 2012 and it is being financed by special indebtedness bonds approved by the General Assembly. At year-end, construction in progress for Broughton Hospital totaled \$156.49 million. The state-operated Broughton Hospital began accepting patients in September 2019.
- ◆ DHHS is also replacing major legacy IT systems. NC FAST, the new system for managing and administering social services benefits, will improve the way DHHS and the 100 county departments of social services conduct business. At year-end, computer software in development for NC FAST totaled \$632.33 million.
- ◆ The State has commitments of \$6.269 billion for the construction of highway infrastructure (\$5.936 billion for governmental activities and \$333 million for business-type activities), which are expected to be financed by gasoline tax collections, motor vehicles fees, toll collections, federal funds, and debt proceeds. Other commitments of \$144.14 million for the construction and improvement of state government facilities are expected to be financed primarily by debt proceeds, state appropriations, and federal funds.

# Financial Highlights

## Debt Administration

At year-end, the State had total long-term debt outstanding (bonds, special indebtedness, and notes from direct borrowings) of \$7.05 billion, an increase of 12.75% from the previous fiscal year-end (see table below):

### Outstanding Debt as of June 30 Bonds, Special Indebtedness, and Notes From Direct Borrowings (dollars in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2019	2018	2019	2018 (as restated)	2019	2018 (as restated)
General obligation bonds.....	\$ 2,424,075	\$ 2,441,685	\$ —	\$ —	\$ 2,424,075	\$ 2,441,685
Special Indebtedness:						
Limited obligation bonds.....	1,946,915	1,783,975	—	—	1,946,915	1,783,975
GARVEE bonds.....	1,046,580	516,820	—	—	1,046,580	516,820
Revenue bonds.....	—	—	1,456,614	1,077,275	1,456,614	1,077,275
Notes from direct borrowings.....	47,676	50,623	132,087	385,960	179,763	436,583
Total .....	\$ 5,465,246	\$ 4,793,103	\$ 1,588,701	\$ 1,463,235	\$ 7,053,947	\$ 6,256,338

Total percent change between  
fiscal years 2018 and 2019

14.02 %

8.57 %

12.75 %

During the 2019 fiscal year, the State issued \$400 million in general obligation bonds, \$600 million in Grant Anticipation Revenue Vehicle (GARVEE) bonds, and \$300 million in limited obligation bonds for its governmental activities. The general obligation bonds were issued pursuant to the Connect NC Bond Act of 2015 and will provide financing for various capital improvements throughout the State as authorized in the Act. The proceeds of the GARVEE bonds will be used to accelerate the construction on a variety of transportation improvement projects across the State. The limited obligation bonds were issued pursuant to the Build NC Bond Act of 2018; the proceeds of these special indebtedness bonds will be used to accelerate certain regional and divisional transportation projects contained in the Statewide Transportation Improvement Plan (STIP). Also, the N.C. Turnpike Authority (NCTA), a business-type activity, issued \$562.9 million in refunding bonds to refinance previously outstanding TIFIA loan and revenue bonds. The refinancing was done to take advantage of lower interest rates and will save the State approximately \$41.2 million in debt service costs.

In connection with these bond issues, Standard & Poor's, Moody's Investors Service, and Fitch Ratings, the top three rating agencies, all affirmed the triple-A bond rating for the State. A triple-A credit rating means that North Carolina has followed well-defined financial management policies and has demonstrated strong debt management practices. The rating agencies recognized the State's historically conservative budgeting, financial management, and debt issuance practices. North Carolina remains one of only twelve states with a triple-A rating from all three rating agencies.

The State's total long-term debt (bonds, special indebtedness, and notes from direct borrowings) reported in governmental activities has increased from \$3.48 billion in 2002 to \$5.47 billion in 2019, in part due to large issuances of non-general obligation debt (special indebtedness) for higher education capital projects. Prior to 2003, the State only issued general obligation debt. The NCTA, a business-type activity, had its first debt issuance in 2010. The NCTA's long-term debt has increased from \$691.56 million in 2010 to \$1.58 billion in 2019.



State Mineral: Gold

# Financial Highlights

## Demographic and Economic Indicators

The following tables illustrate comparative information for the State:

### SCHEDULE OF DEMOGRAPHIC DATA

For the Years 2015-2019

Year	Population		Per Capita Income (whole dollars)		North Carolina Civilian Labor Force Data		North Carolina-Other Data (units)	
	North Carolina Population	N.C. Increase from Prior Period	North Carolina	N.C. as a Percentage of U.S.	Employed	Unemployed Percentage Rate	Motor Vehicles Registered	Residential Construction Authorized
2019	10,497,679	est. 1.10%	\$ 48,393	est. 84.70%	4,868,076	4.20%	9,548,341	34,313
2018	10,383,620	1.10%	46,117	84.70%	4,787,584	4.20%	9,403,076	36,166
2017	10,270,800	1.12%	44,180	85.15%	4,700,760	4.20%	9,513,210	30,055
2016	10,156,679	1.23%	42,651	85.52%	4,614,694	4.90%	9,328,899	27,230
2015	10,033,079	1.00%	41,851	85.45%	4,493,898	5.80%	9,076,874	26,293

### TAXABLE SALES BY BUSINESS GROUP

For the Fiscal Years 2015-2019

(Dollars in Thousands)

	2019	2018	2017	2016	2015
<b>General merchandise</b> (includes discount and department stores, industrial supply dealers).....	\$ 41,960,513	\$ 38,965,273	\$ 38,193,321	\$ 35,258,344	\$ 33,018,301
<b>Food</b> (includes restaurants, taverns, grocery, vending).....	29,981,154	28,318,061	27,164,722	26,204,343	24,663,183
<b>Lumber &amp; building material</b> (includes material, electrical, plumbing supply, sheet metal fabrication).....	18,383,205	16,500,032	15,426,794	13,635,227	12,711,938
<b>Automotive</b> (includes dealers, garages, automotive supply).....	9,691,420	9,098,884	9,058,317	7,667,914	6,920,644
<b>3% and 4.75% tax group</b> (includes manufactured and modular homes, boats).....	647,756	588,128	541,143	479,938	448,267
<b>Furniture</b> (includes stores, appliance dealers, upholstery and floor covering).....	5,182,589	4,914,916	4,778,592	4,372,666	4,160,558
<b>Apparel</b> (includes clothing, boot, and shoe stores, shoe repair).....	6,018,989	5,700,497	5,648,766	5,414,102	5,140,968
<b>Unclassified</b> (includes lodging, medical supply, office equipment, book and school supply).....	44,693,250	41,113,549	38,358,149	35,124,312	33,241,081
<b>Total</b> .....	<u>\$ 156,558,876</u>	<u>\$ 145,199,340</u>	<u>\$ 139,169,804</u>	<u>\$ 128,156,846</u>	<u>\$ 120,304,940</u>
General State Sales Tax Rate	4.75%	4.75%	4.75%	4.75%	4.75%

# Financial Highlights

## Demographic and Economic Indicators (cont'd)

### PRINCIPAL EMPLOYERS

For the Fiscal Years 2010 & 2019

	2019			2010		
	Employees	Rank	Percentage of Total State Employment	Employees	Rank	Percentage of Total State Employment
State of North Carolina.....	180,000-184,999	1	3.75%	180,000-184,999	1	4.46%
Federal Government.....	70,000-74,999	2	1.49%	65,000-69,999	2	1.65%
Wal-Mart Associates, Inc.....	45,000-59,999	3	1.08%	50,000-54,999	3	1.28%
Duke University.....	35,000-39,999	4	0.77%	25,000-29,999	4	0.67%
Charlotte-Mecklenburg Hospital Auth.....	35,000-39,999	5	0.77%	25,000-29,999	5	0.67%
Food Lion LLC.....	30,000-34,999	6	0.67%	25,000-29,999	6	0.67%
Wells Fargo Bank NA.....	30,000-34,999	7	0.67%	20,000-24,999	8	0.55%
Lowes Home Centers, Inc.....	20,000-24,999	8	0.46%	15,000-19,999	10	0.43%
Wake County Public Schools.....	20,000-24,999	9	0.46%	15,000-19,999	9	0.43%
Charlotte-Mecklenburg Bd Education.....	20,000-24,999	10	0.46%	20,000-24,999	7	0.55%
<b>Total.....</b>	<b>485,000-544,990</b>		<b>10.58%</b>	<b>440,000-489,990</b>		<b>11.36%</b>

### TEACHERS AND STATE EMPLOYEES BY FUNCTION

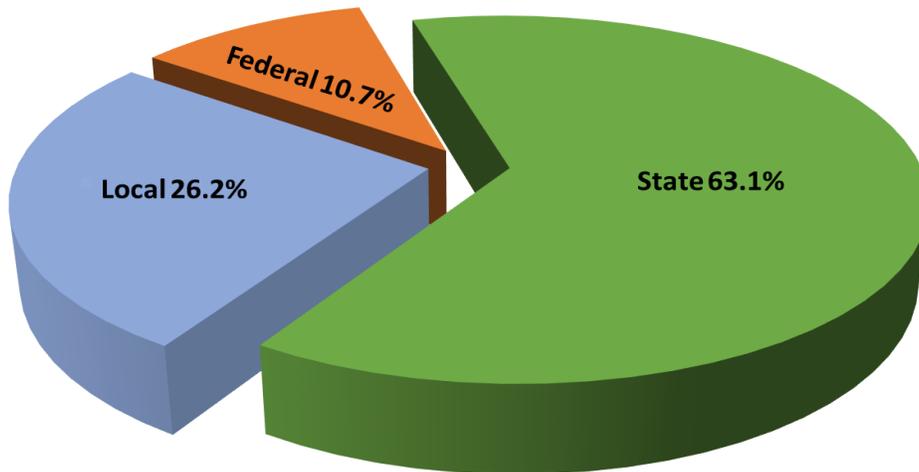
For the Fiscal Years 2015-2019

	2019	2018	2017	2016	2015
General government.....	5,501	4,983	5,160	4,857	5,270
Primary and secondary education.....	155,755	151,263	153,236	154,079	153,165
Higher education:					
Universities.....	65,697	64,028	63,345	62,194	62,152
Community colleges.....	18,095	18,028	18,021	18,129	18,471
Health and human services.....	18,098	18,038	17,970	17,552	17,620
Economic development.....	2,141	2,136	2,340	3,365	2,893
Environment and natural resources.....	4,140	4,128	4,112	4,148	3,471
Public safety, corrections and regulation.....	34,034	34,089	34,009	33,966	33,558
Transportation.....	11,666	12,141	12,578	12,591	12,758
Agriculture.....	2,088	2,082	2,077	2,066	2,080
<b>Total.....</b>	<b>317,215</b>	<b>310,916</b>	<b>312,848</b>	<b>312,947</b>	<b>311,438</b>

## Education Highlights (Primary and Secondary)

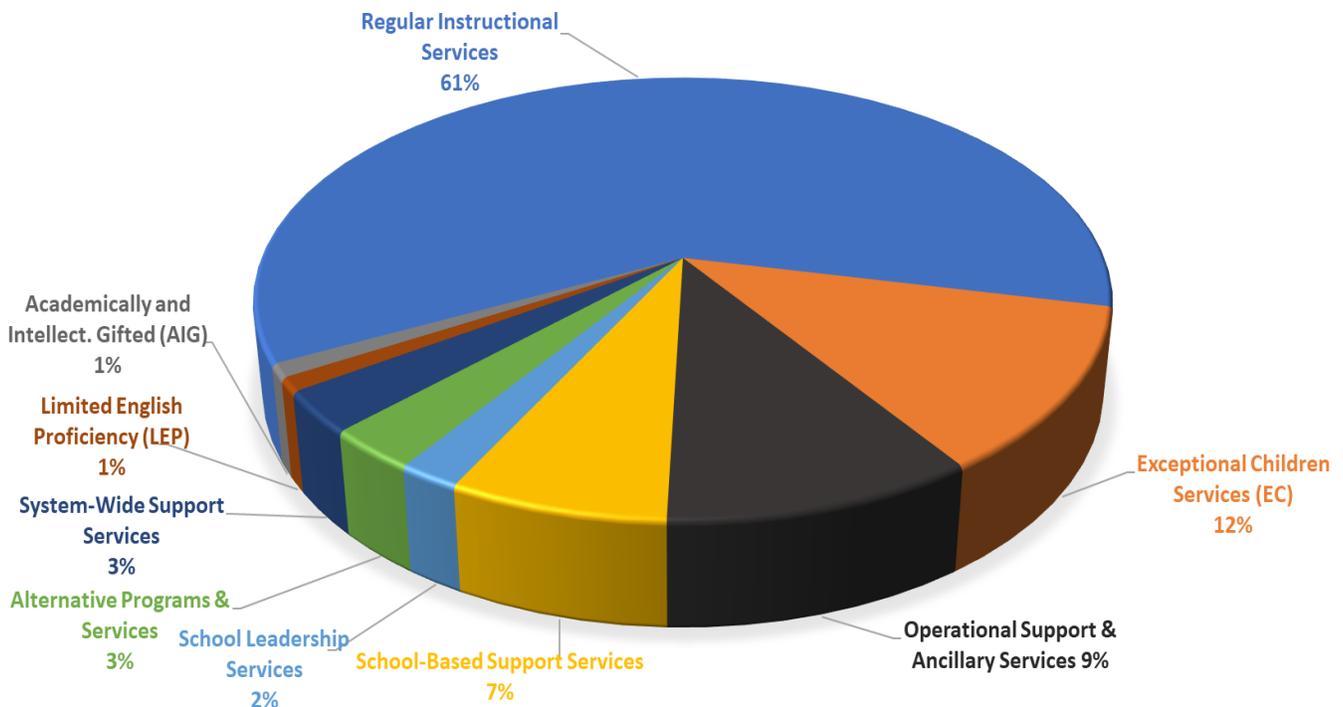
North Carolina ranks 9th in the Nation for the highest percentage of funds from state revenue. The national average is 45.6%. Most other state school systems are primarily funded by locally driven initiatives such as property taxes and local bond issues.

### SOURCE OF EXPENDITURES FY 2017 - 18



Of the \$8.68 billion State Public School Fund for fiscal year 2017-2018, all but 6% was used for salaries and benefits.

### HOW STATE FUNDS WERE EXPENDED FY 2017 - 18



# Financial Highlights

## North Carolina Education Lottery

For the 13th year in a row, the N.C. Education Lottery (Lottery) finished the 2019 fiscal year by setting a new record for lottery ticket sales, recording \$2.86 billion in sales. From those sales, the Lottery raised \$709.2 million for education programs in North Carolina.

Instant tickets, or scratch-offs, continued to be the Lottery's most popular product, generating \$1.91 billion in sales, or 66.8% of revenue. The Lottery launched 57 new instant games during the year. During the year, Lottery players received \$1.84 billion in prize money including 66 prizes of \$1 million or more, the most ever. The biggest win occurred in June when a North Carolina Powerball player won a \$344 million jackpot. It was the largest jackpot ever won in the state and the seventh time a North Carolinian won either the Powerball or Mega Millions jackpot.

Ticket sales show that lottery games remain popular in the state. Last year, the Lottery averaged \$7.8 million a day in ticket sales, \$5 million in prizes, and \$1.9 million a day raised for education. The Lottery ended the fiscal year with 7,049 retail locations across North Carolina, and retailers earned \$198.9 million in sales commissions and incentives. Total sales since the inception of the Lottery in 2006 stood at \$23.7 billion, and the amount of money raised for education at \$6.6 billion.

The Lottery again received an "unmodified opinion" from independent auditors in its most recent (and all prior) financial audits. In May, the Lottery received the results of its latest performance audit, conducted by Delehanty Consulting LLC. The biennial audit, which reviewed operations through June 30, 2018, described the Lottery's performance as exceptional. It reported that the N.C. Education Lottery was the only one of the 45 lotteries operating at the time in the United States to increase ticket sales every year of its operations, and the only one to increase operating income per capita from traditional lottery products every year of its existence except for one.

The Lottery currently holds the highest level of responsible gaming certification recognized internationally. The Level 4 accreditation, awarded by the World Lottery Association, attests that the Lottery has implemented responsible gaming practices into its day-to-day operations and is committed to continuous improvement of them. The principles govern the protection of lottery players, cooperation with stakeholders, advertising practices and the monitoring of gaming activities.

The State Lottery Act directs the Lottery to increase and maximize the available revenues for education purposes. In the 2019 fiscal year, a breakdown of revenues showed 64.4% went to prizes, 24.7% for education programs, 7% in retailer commissions, and the remaining 3.9% to administrative expenses. The Lottery transferred its net profits monthly to the Office of State Budget and Management and into the North Carolina State Lottery Fund. Funds then were distributed as outlined in the state budget. The General Assembly made the following allocation of money raised by the Lottery in fiscal year 2019:

- ◆ \$385.9 million, or 50.2% to noninstructional support personnel;
- ◆ \$100 million, or 13% for the Public School Building Capital Fund which provides monies to North Carolina counties to build and repair schools;
- ◆ \$141.7 million, or 18.4% to the Needs-Based Public School Capital Fund which provides financial assistance to low-wealth counties to build new schools;
- ◆ \$78.2 million, or 10.2% to the N.C. Pre-K program to fund seats in the prekindergarten program for at-risk four-year-olds;
- ◆ \$30.4 million, or 4% for N.C. Education Lottery Scholarships which are awarded based on financial need to students attending a state university or community college;
- ◆ \$10.7 million, or 1.4% to the UNC Need-Based Grant program, which provides financial aid based on need to students attending one of the 16 UNC system institutions.
- ◆ \$21.4 million, or 2.8% for LEA Transportation for the State's school systems.

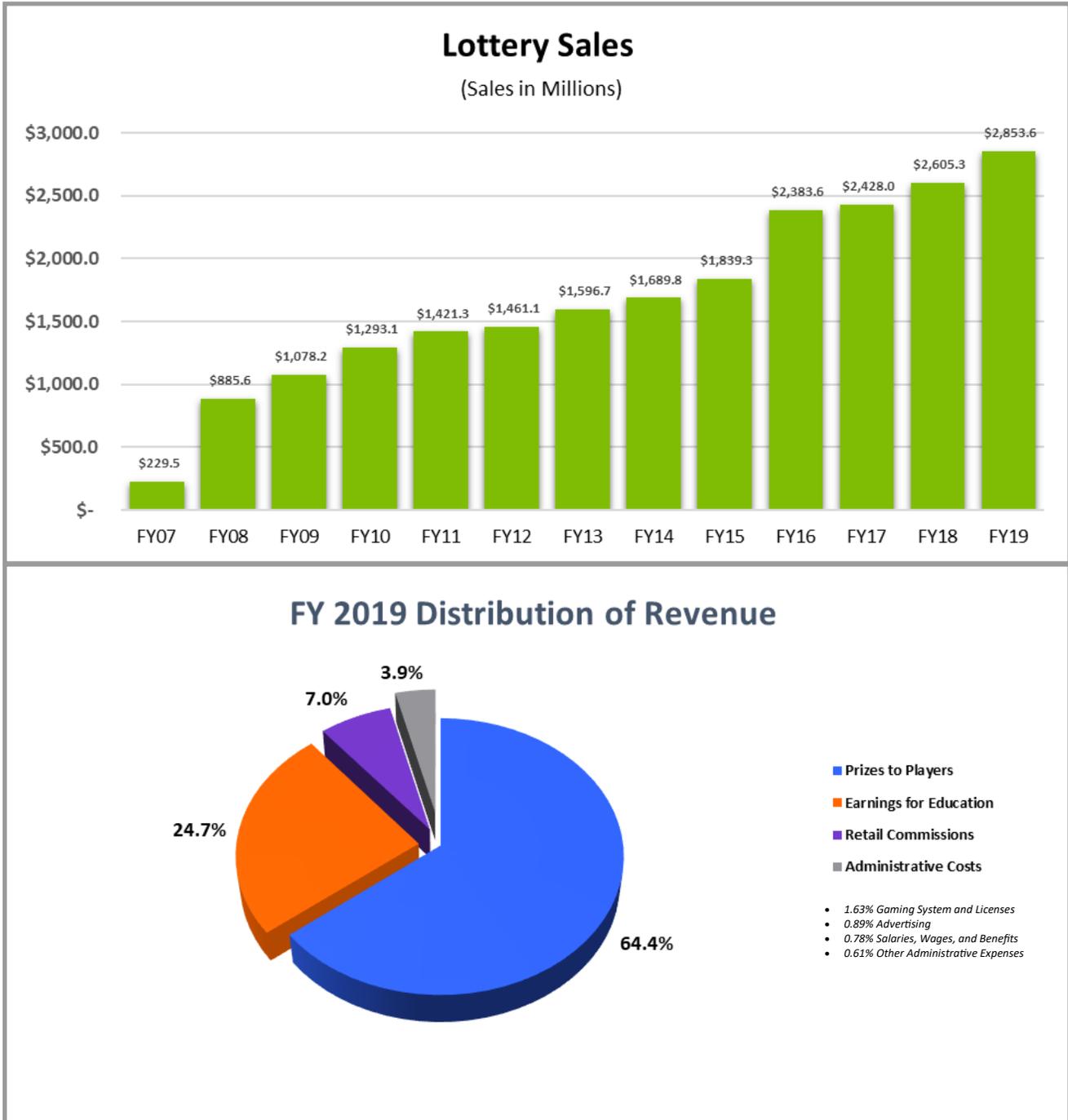
Lottery revenues that exceed projections and unallocated funds are placed in a reserve fund. The General Assembly used the fiscal year 2019 earnings and some of those unallocated revenues in the reserve fund in its budget allocations. The General Assembly also directed transfers of \$2.1 million in profits to the N.C. Alcohol Law Enforcement and \$1 million to the N.C. Problem Gambling Program.



# Financial Highlights

## North Carolina Education Lottery (cont'd)

The following tables illustrate how lottery funds were distributed for education in fiscal year 2019:



## Transportation Highlights

Related to the fiscal year 2019, the North Carolina Department of Transportation (NCDOT) listed the following as some of its key initiatives launched and project advancements:

- ◆ During Hurricane Florence response, NCDOT deployed more than 2,300 employees to assist in evacuations, supply deliveries, floodwater monitoring, and road reopening. NCDOT mobilized drones for the first time in emergency response, which assisted officials with evacuations and associated traffic considerations.
- ◆ Teamed up with WakeMed Health & Hospitals and Matternet to conduct the first round of test flights for drones to carry simulated medical packages. The three-year program aims to test practical applications of drones by partnering local governments with private companies to learn more about how this emerging technology can be safely integrated into everyday life.
- ◆ Earned national honors for its pioneering use of drone technology to respond to disasters and deliver medical supplies. The program won the Association for Unmanned Vehicle Systems International's XCELLENCE award in the humanitarian category.
- ◆ Created the NC FIRST (Future Investment Resources for Sustainable Transportation) Commission with 14 members focused on the State's future transportation investment strategy.
- ◆ Launched the North Carolina HBCU/MSI Fellows Program, providing workplace experience and learning opportunities for 12 recent graduates of North Carolina's historically black colleges and universities and minority-serving institutions.
- ◆ Earned national honors from the American Association of State Highway Transportation Officials for the Wilmington Bypass and the Piedmont Improvement Program. The projects were selected as two of the nation's best. The Wilmington Bypass connects New Hanover and Brunswick counties and completes the 20-mile I-140 corridor around Wilmington. The Piedmont Improvement Program was North Carolina's largest program of improvements to its rail infrastructure.
- ◆ Opened the 2.8-mile, \$252 million Marc Basnight Bridge to carry N.C. 12 across Oregon Inlet.
- ◆ Invested \$118 million toward the Carolina Connector, the CSX truck and train transfer center that began construction near Rocky Mount.
- ◆ Won multiple Federal Railroad Administration grants that will allow NCDOT to make safety improvements at railroad crossings statewide; as well as infrastructure improvements that will improve freight movement, reduce collisions between trains and automatically enforce speed limits. Grants have also been won for improvement projects that will install air pollution reduction systems on the NCDOT Rail Division's full fleet of locomotives.



State Tree: Pine

Information provided by the North Carolina Department of Transportation

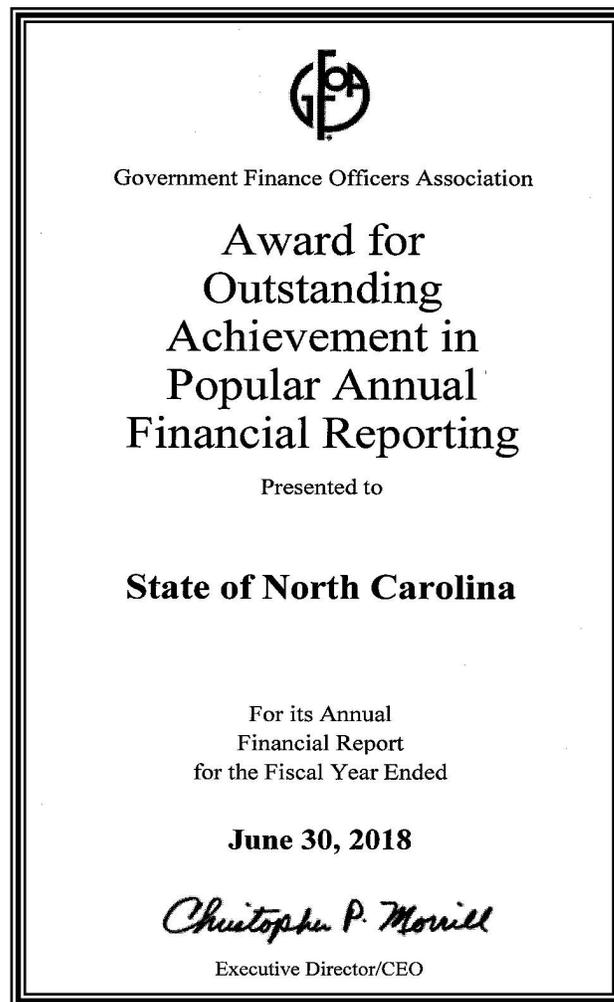
# Financial Highlights

## Award for Outstanding Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the State of North Carolina for its Popular Annual Financial Report for the fiscal year ended June 30, 2018. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

To receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. The State of North Carolina has received a Popular Award for the last 21 consecutive years (fiscal years ended 1998-2018). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to the GFOA.



25 copies of this public document were printed at a cost of \$167.59 or \$6.70 per copy.